

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

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In re	:
	:
LEHMAN BROTHERS HOLDINGS INC., <i>et al.</i>,	:
	:
Debtors.	:
	:
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Chapter 11 Case No.
08-13555 (JMP)
(Jointly Administered)

**STIPULATION AND ORDER WITH RESPECT TO RETURN
OF FUNDS OF MKP OPPORTUNITY MASTER FUND, LTD.**

This Stipulation is dated as of the 8th day of January, 2009, and is by and among MKP Opportunity Master Fund, Ltd. (“MKP”), JPMorgan Chase Bank, N.A. (“JPM”), and Lehman Brothers Special Financing, Inc. (“LBSF”).

A. On September 15, 2008, LBHI filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code and has been continued in the operation of its business and possession of its property as a debtor in possession. On October 3, 2008, LBSF filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code and has been continued in the operation of its business and possession of its property as a debtor in possession.

B. MKP represents and warrants that:

1. Since 2001, MKP has maintained a prime brokerage relationship with Bear Stearns, now owned by JPM (“JPMorgan (Bear)”). MKP was not and is not a counterparty with or indebted to LBSF.

2. On September 18, 2008, MKP instructed Bank of America

(“BoA”) to transfer \$4 million (the “Funds”) from MKP’s account at BoA to MKP’s account at JPMorgan (Bear).

3. BoA personnel misconstrued the MKP instructions and the Funds were mistakenly wired by BoA to JPM for the benefit of LBSF (federal reference number 0080918B6B7HU4R006953).

4. MKP is neither a creditor of, nor has any common ownership with, MKP Vela CBO, Ltd. (“MKP Vela”), and the only commonality between the two entities is that MKP Capital Management, LLC is the investment manager to both MKP and MKP Vela.

C. JPM represents, to the best of its knowledge and belief, that:

1. On September 18, 2008, the Funds were credited to LBSF account number 066-143-543 at JPM (the “Account”). On September 22, 2008, BoA notified JPM that the Funds had been sent in error and requested that they be returned.

2. On September 23, 24, 29 and October 2, 2008, JPM notified LBSF that it had received notification from BoA that the Funds had been credited to the Account in error and requested authority to return the Funds.

3. On October 1, 2008, JPM was served with an order to show cause filed by BoA in the Supreme Court for the State of New York which temporarily restrained JPM from transferring, assigning, pledging or otherwise disposing of funds in, *inter alia*, the Account. As a result, the Account was placed on hold.

4. On October 2, 2008, LBSF sent an instruction to JPM to pay \$4

million to BoA for MKP's account. As a result of the hold on the Account, no payment was made.

5. On October 3, 2008, JPM notified LBSF that it was exercising its right to set off the funds in the Account against the obligations of LBSF to JPM pursuant to certain ISDA Master Agreements. The funds in the Account were thereafter placed in a segregated JPM house account pending the issuance of a final calculation statement of the amount due from LBSF to JPM.

6. On various dates in October, 2008, JPM delivered calculation statements to the Debtors which, *inter alia*, calculated the amounts due to JPM from LBSF under the ISDA Master Agreements and applied the funds that had been in the Account against the amounts due from LBSF.

D. The parties recognize that MKP had no relationship with LBSF, that the Funds were transferred into the Account as a result of an administrative error, and that, had such administrative error not occurred, there would have been \$4 million less available for setoff and application to the obligations of LBSF to JPM.

Now therefore, the parties hereto stipulate and agree as follows:

1. Within two business days of the Bankruptcy Court's approval of this Stipulation, JPM shall credit the Account with the sum of \$4 million, and LBSF shall transfer the sum of \$4 million from the Account to MKP, pursuant to the following instructions:

**Citibank ABA 026009593
Acct No. 194-7300-770300
BOFA Securities, Operation
FFC:# 391190-22371629
MKP Opportunity Master Fund, LTD**

2. JPM will reverse the setoff and application of funds in the Account to its claims against LBSF, but only to the extent of \$4 million, thereby increasing the amount of its outstanding claims against LBSF by \$4 million, as to which the obligations of LBSF to JPM, and all claims, interests and rights of JPM in respect of the \$4 million, including any liens, rights of setoff and claims against guarantees issued by Lehman Brothers Holdings Inc., if any, shall be reinstated as if the \$4 million setoff had never occurred.

3. For the avoidance of doubt, it is understood and agreed that the Debtors reserve and retain all defenses to the allowance and validity of JPM's claims, interests and rights other than as to the reinstatement of \$4 million thereof as provided for herein.

4. Promptly after execution of this Stipulation by all parties, the Debtors shall make application to the Bankruptcy Court for entry of an order approving this Stipulation.

Dated: New York, New York
January 8, 2009

[signatures on following page]

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IT IS HEREBY ORDERED, this 22nd day of January, 2009, that the Stipulation and Order with Respect to Return of Funds of MKP Opportunity Master Fund, Ltd. is approved.

/s/ James M. Peck
Honorable James M. Peck
United States Bankruptcy Judge